April 1991 Monthly Survey

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Surveys of Consumers

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EUPHORIA FADES, RECESSION ENDURES

Optimism Recedes

About one-third of the March surge in consumer confidence was reversed in the April 1991 survey. This still left the Index of Consumer Sentiment at 81.8, well above the February 1991 reading of 70.4 and the October 1990 low of 63.9.

Nearly the entire April decline came in expectations about the future course of the economy--the measures that recorded the greatest surge in March. Personal financial attitudes remained weak, declining slightly in April, indicating continued concerns by consumers about their ability to make large purchases.

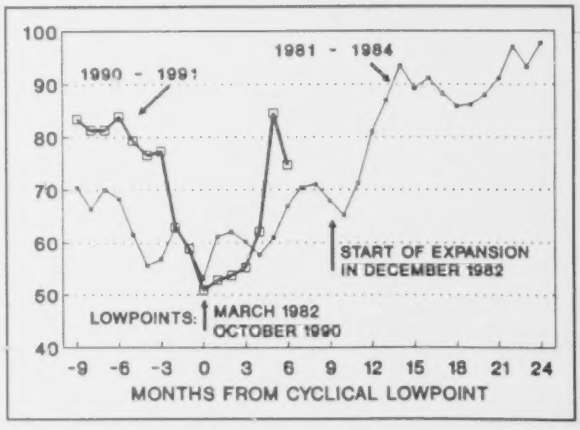
While the dampening impact of the fading euphoria may well have ended, the heightened expectations for improvement that still prevail may prove vulnerable to the continued weakness in the economy. Until improved economic conditions begin to confirm these expectations, it is unlikely that further gains will be recorded. Indeed, it is more likely that further erosion will follow in the months ahead.

Leading Indicator

The Index of Consumer Expectations fell to 74.7 in the April 1991 survey, from 84.5 in March, but remained well ahead of the 62.0 recorded in February and the October 1990 low of 50.9. The rather large month-to-month changes reflects the surge in optimism following the end of the Persian Gulf war, and its subsequent decline. Consumers' reassessments of the longer run prospects for the economy contributed most to these changes, with the April survey reversing nearly the entire March improvement.

The chart below shows the trend in the Index of Consumer Expectations around its current and prior lowpoints. The Expectations Index reached a low nine months prior to the start of the last expansion in December 1982, and showed two small reversals prior to its rapid gains in early 1983. In comparison, the March surge greatly outdistanced the prior pace of improvement, even taking the April decline into account. If past patterns hold, the data

Index of Consumer Expectations



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suggest a start of the recovery in the third quarter at the earliest. But past patterns may well be an unreliable guide to the current situation. The risk is tilted toward a later start to the recovery.

The primary risk involves slower real income growth than was true in the prior recovery. Sharp and cumulative declines in inflation bolstered real income growth in the early stages of the prior recovery, but will provide little further help currently, and the needs of state governments to increase taxes will also diminish growth in disposable incomes. In addition, consumers still voice heightened concerns about key sectors of the economy, most notably, continued losses of confidence in financial institutions.

Personal Finances Remain Weak as Concerns Shift From Rising Prices to Falling Incomes

Consumers' assessments of their financial situation decline substantially immediately following the start of the Persian Gulf crisis, reaching a low in October of 1990. The decline was paced by rising gasoline prices, and by October one-in-four households pointed to the erosion of their budgets as their primary concern. The subsequent decline in gasoline prices did result in fewer households reporting that their financial situation worsened because of price increases. Nonetheless, the proportion reporting unfavorable changes in their financial situation has remained greater than the number reporting improvement.

Just when concerns about price increases started to declined, they were replaced by increasing concerns about incomes and job prospects. As a result, very little change in the financial situation of consumers has been recorded since the start of the year. In the April 1991 survey, 34 percent of all families reported that their financial situation had improved, identical to the January 1991 reading, and well below the April 1990 figure of 46 percent.

The proportion reporting income gains exceeded the number reporting income declines by just 6 percentage points in the January and April 1991 surveys (28 percent reported income gains versus 22 percent income declines), down from a 21 percentage point difference last year (34 percent income increases versus 13 percent income declines).

When asked about their financial prospects for the year ahead, families have expressed only minor changes in their outlook since the start of the year. Among all families, 34 percent expected their financial situation to improve during the year ahead, between the 36 percent recorded one month earlier and the 32 percent recorded three months ago, but well below the 45 percent recorded one year earlier.

Outlook for Economy Fades Along with Euphoria

The impact of the euphoria produced by the dramatic conclusion to the Persian Gulf war was no more evident than in consumers' assessments of prospects for the general economy. Nearly all of the March surge in confidence was focused on the outlook for the economy, as was nearly all of the April decline. Thus far, the reassessment has only partially reversed the improvement, leaving them still significantly higher than their 1990 lows. Indeed, even at their lowered April levels, prospects for the general economy still show a rather large gain over the February readings. For example, the proportion of households that expected good times financially in the economy as a whole during the year ahead fell to 40 percent in April, from 48 percent in March, but still remained twice the 20 percent recorded in February.

While the impact from fading euphoria may well have been stemmed, these prospects may still prove vulnerable to further declines due to the continue strength of the recession. One aspect of consumer views that was not affected by the war's end was their assessments of the current state of the economy: three-fourths of all households thought that the economy was in recession in the April survey, unchanged from March. Continued news of weakness in the economy may well cause consumers to further revise their expectations downward.

Unemployment Remains Top Concern

Rising unemployment was the major concern expressed by consumers in the April survey, as three times as many households expected further increases rather than declines during the year ahead (45 versus 15 percent). Although the April survey did erase about half of the sharp improvement recorded in March, when the proportion that expected increases fell to 36 percent from 56 percent in February, it still remained on an overall improving trend.

Expected Inflation Rate Reaches Three Year Low

The annual rate of inflation expected by consumers during the year ahead fell to 4.3% in the April 1991 survey, marking the sixth consecutive monthly decline since 6.1% was recorded in October. Overall, this was the lowest rate of inflation expected in since early 1988.

Interest Rate Outlook Worsens in Recent Surveys

The proportion of households that expected declines in interest rates fell to 28 percent in the April 1991 survey, from 35 percent in March and 43 percent in February. This ended the improving trend, partially reversing the substantial improvement recorded from September 1990 to February 1991, when the proportion that expected declines tripled, rising from 14 to 43 percent.

Expected Price Discounts Dominate Buying Attitudes

Although consumers views toward buying conditions for homes and vehicles did soften in the April survey, they remained at improved levels compared to late 1990. The major reason for the overall improvement has been the record number of households that mentioned the expected availability of reduced prices.

Nearly the entire improvement in vehicle buying attitudes is contingent on the expectations of the renewed availability of deep discounts. In the April 1991 survey, of 51 percent of all households, a new all-time record level, mentioned the expected availability of discounts when asked to explain their view of vehicle buying conditions during the year ahead.

For the housing market, 44 percent of all families in the April survey mentioned reduced home prices, only below the all-time record of 49 percent recorded last month. For furniture, appliances, and home electronics, 35 percent justified their view in terms of the availability of price discounts.

In total, more families the April 1991 survey referred to the role of price discounts in their evaluations of buying conditions than ever before in the history of these surveys. Importantly, the anticipated availability of price discounts now represents a strongly held expectation: if consumers find that an expected discount is not available, they are likely to postpone their purchase until discounts are again offered. The willingness to wait for discounts is especially strong for vehicle buyers.

Consumer Loan Rates: Help Housing, Hurt Vehicles

The most important factor underlying the improved attitudes toward home buying conditions has been lower mortgage interest rates. Among all families, declines in mortgage interest rates were mentioned by 43 percent in the April 1991 survey, unchanged from March, but nearly four-times the October 1990 low of 11 percent.

In sharp contrast, the proportion of households that mentioned the availability of lower interest rates on vehicle loans fell in the April 1991 survey to 12 percent, from 16 percent in March. Overall, references to lower vehicle loan rates was not much higher in the April survey than at its October 1990 low of 5 percent. Indeed, throughout 1990 and early 1991, fewer consumers made favorable references to vehicle loan rates than at any other time during the prior seven years. Thus current prospects for the vehicle market are diminished

from vehicle loan rates that have shown little improvement, as well as the expectation of deep price discounts that are not currently available.

Southern Residents Record Greatest Decline

Sentiment among residents of the Southern region retreated by the largest amount, with the Index falling to 79.7 in April from 91.4 in March. Much more modest declines were recorded among residents of the West (83.5 in April, down from 88.2 in March) and the Northeast (78.8 in April, down from 83.0). Among residents of the Midwest, the Index remained largely unchanged (85.2 in April, barely below the 85.9 recorded in March).

Sentiment among families with above median incomes declined in the April survey, but by less than among lower income families. Among families with incomes of $40,000 or more, the Index of Consumer Sentiment fell to 91.0 in April, from 95.3 in March, but still remained substantially higher than the 73.2 recorded in February.

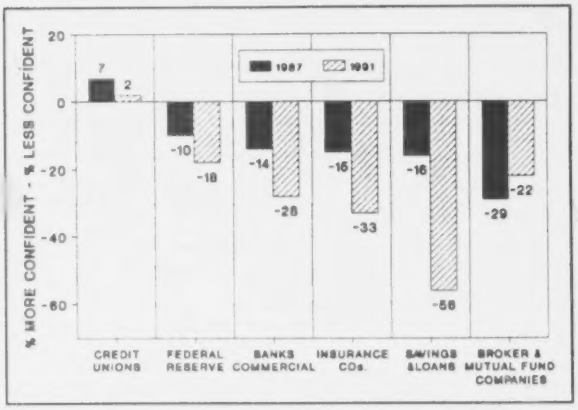
Loss in Confidence in Financial Institutions

In the April 1991 survey, questions on people's sense of confidence in financial institutions were included, repeating items that were first asked in November-December 1987. It is important to note that the questions refer to change in confidence, not the absolute levels of confidence in the various institutions (see the question wording on the attached table). The chart below summarizes the results, showing the difference between the proportions of households that reported increased and decreased confidence.

Overall, the results indicate a widespread and growing concern with financial institutions.

For all financial institutions except credit unions, more households reported that their confidence

Change in Confidence In Financial Institutions



had lessened rather than increased in both the 1991 and 1987 surveys. Moreover, household expressed greater declines in confidence in 1991 than in 1987 for all financial institutions except brokerage and mutual fund companies. That brokerage and mutual fund companies recorded a small rebound is not surprising, since the first measure was taken immediately following the October 1987 stock market crash.

Interestingly, the greater the loss in confidence recorded in 1987, the greater the subsequent decline by 1991, leaving the rank order identical in both years, except for brokerage and mutual fund companies. Importantly, however, the extent of differences between the various financial institutions were much less in 1987 than 1991.

The 1991 declines in confidence were especially sharp for Savings & Loans, followed by insurance companies, and commercial banks. In 1991, 59 percent of all households reported less confidence in Savings & Loans, 38 percent had less confidence in insurance companies, and 31 percent expressed less confidence in commercial banks.

* * *

The April 1991 survey included 501 completed interviews conducted between April 1st and April 29, 1991.

CHANGE IN CONFIDENCE IN FINANCIAL INSTITUTIONS

Confidence In Financial Institution Compared With Five Years Ago	Credit Unions		Federal Reserve System		Commercial Banks		Insurance Companies		Savings & Loan Associations		Brokerage & Mutual Fund Companies	
	1987	1991	1987	1991	1987	1991	1987	1991	1987	1991	1987	1991
A lot more confidence now	9	6	4	2	3	1	7	2	4	1	3	*
A little more confidence now	9	8	5	5	4	2	6	3	7	2	5	3
Same	61	66	67	63	70	64	56	55	58	34	46	61
A little less confidence now	7	6	12	14	12	14	12	16	15	12	19	13
A lot less confidence now	4	6	7	11	9	17	16	22	12	47	18	12
Don't know; NA	10	8	5	5	2	2	3	2	4	4	9	11
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cases	1001	501	1001	501	1001	501	1001	501	1001	501	1001	501
Relative Score: %More - %Less	+7	+2	-10	-18	-14	-28	-15	-33	-16	-56	-29	-22
Change in Score: 1991 - 1987	-5		-8		-14		-18		-40		+7	

The questions asked in November-December 1987 and April 1991 were: "The next few questions are about the trust and confidence people have in this country's financial institutions. For each type of financial institution that I read, please tell me whether your confidence in that financial institution has changed in recent years. First, what about INSTITUTION -- compared with five years ago, do you have more confidence now, less confidence now, or has your confidence in INSTITUTION remained about the same? Would you say a little or a lot (more/less) confidence?"

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